

15 MAR 1974

MEMORANDUM FOR: CRS/ADD Release

SUBJECT: Release of ER RP 73-21, East German Trade
with the Industrial West, December 1973,
Confidential, to Foreign Governments

1. It is requested that the attached copy of subject report be forwarded as follows:

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2. All OER responsibilities as defined in the DDI memorandum of 13 August 1952, "Procedures for Dissemination of Finished Intelligence to Foreign Governments," as applicable to this report have been fulfilled.

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Chief, St/P/C/ER

1 Attachment

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By: *mk*
Date: *3/19/74*

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REMARKS

Sources - FBIS, JPRS, GDR Statistical Yearbooks, press releases, economic journals, OECD trade statistics, Commerce Department statistical compilations, Soviet and Eastern Europe trade statistics.

RP will be classified CONFIDENTIAL and will be released to the foreign governments indicated above.

Don
6 December 73

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EAST GERMAN TRADE WITH THE INDUSTRIAL WEST

SUMMARY

The mounting economic dependence of the German Democratic Republic (GDR) on the industrial West (IW) poses major policy questions for the regime. The GDR has turned increasingly to the IW since the late 1960s to offset a slowdown in Soviet and East European deliveries of most industrial materials and agricultural products. The IW has also filled growing GDR needs for particular kinds of machinery, chemicals, and metals not available in the Communist world. As a result, GDR imports from the IW since 1968 have outstripped exports, and medium- and long-term indebtedness is now US \$900 million, nearly three-fourths of the value of exports to the IW.

GDR dependence on the IW will go on rising even though growth of trade with the IW will be slower. GDR imports of raw materials and semimanufactures from the IW, now about one-third of total imports of such products, will probably be half the total by 1980. The GDR will also need more Western investment goods, although they are likely to drop as a share of total imports of such goods.

The GDR must soon begin speeding up the growth of exports to the IW if the regime is to avoid serious payments problems in the late 1970s or a slowdown in economic growth. Most of the increase in exports will have to consist of finished goods. The GDR has the manufacturing capacity, but not the right products, for a rapid expansion of machinery exports. The GDR has some salable consumer goods, but it does not have enough capacity to push exports to the IW while trying to catch up with domestic demand and meet export commitments to the USSR and Eastern Europe.

While the regime is trying to improve the design, quality, and marketing of machinery and to expand the supply of consumer goods, it can buy time by stretching out its indebtedness—as yet mainly medium term. By the late 1970s, however, the GDR must get a real export boom going or find concessionary re-financing—a more likely alternative—to sustain economic growth.

The GDR's dependence on trade with the IW puts a premium on smooth political relations. Yet more contact with the West also appears as a threat to the regime. The leadership has tightened internal controls and will continue to restrict contacts with Western businessmen, even though it is costly to do so. In the near future, while the United States is "normalizing" relations with the GDR, this conflict between the regime's domestic and foreign policy needs may intensify.

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DISCUSSION

Introduction

1. In its trade with the industrial West the GDR is in a special bind. Materials are in short supply in the USSR and Eastern Europe, and the GDR is often forced to barter materials for materials—an exchange for which the GDR is in a weak economic position. The regime has been forced to turn to the West for an ever larger share of its materials. At the same time the GDR relies increasingly on exports of highly processed manufactures, and these are especially hard to sell in the West. The regime needs to make GDR products and business practices competitive if it is to get out of this bind. Yet, lacking the support of a national tradition and forced to struggle against the attractions of life in the Federal Republic of Germany (FRG), the regime is terrified of uncontrolled contacts with the West and of the ideological fallout from economic "reform." Moreover, Soviet surveillance and pressure, along with hard-nosed Soviet trade policy, leave the GDR small room for maneuver in dealing with these contradictory economic and political requirements.

2. This publication traces the developments in the GDR's trade with the industrial West from 1968 to 1972 against the background of the GDR's special circumstances. It also presents some preliminary forecasts of the volume of this trade for the benchmark years 1976 and 1980. Underlying the analysis is a fairly extensive review of GDR trade statistics, which are meager at best; among the East European countries, only Romania is less forthcoming. In this publication, the regime's official statistics have been corrected and amplified to describe fully the GDR's trade with the industrial West. The estimates given are explained briefly in notes to tables and in the Appendix.

The Rise in Imports, 1968-72

3. Since 1968, GDR imports from the industrial West have gone up faster than in any period since the mid-1950s. Imports from the IW in 1972 were nearly two and one-half times those of 1968, and the share of the IW in total GDR imports rose in these four years from 21% to 31% (see Table 1 and the map).

4. The growing share of the IW in imports is accounted for mainly by increased purchases of raw materials and semimanufactures. Imports of foodstuffs, agricultural products, and forestry products (including semimanufactures) rose from 23% to 35% of GDR imports of these commodities. Imports of fuels, ores, metals, nonmetallic minerals, chemicals, and building materials rose from 20% to 34% of total imports of basic industrial materials. In contrast, machinery and equipment imports rose only from 17% to 21%, and imports of industrial consumer goods from 42% to 47% of the respective totals.

5. A substantial increase in GDR imports from the IW was to be expected in any case, to fill needs for machinery, special chemicals and alloy steels, and other commodities not available at all in the USSR and Eastern Europe. But the shift toward the IW also reflected an economic push in 1969-70 for which no provision had been made in trade agreements with the countries of the Council for Mutual Economic Assistance (CEMA) and a leveling off in Soviet deliveries of most materials in 1971-72.

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